

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION**

**RESOLUTION NO. W-4503**

**November 19, 2004**

**R E S O L U T I O N**

**(RES. W-4503), CALIFORNIA-AMERICAN WATER COMPANY –  
CORONADO, FELTON, LARKFIELD, LOS ANGELES, MONTEREY,  
SACRAMENTO, AND VILLAGE DISTRICTS - RESOLUTION  
RECORDING STATUS OF RESERVE ACCOUNT RECOVERY  
FILINGS AND WATER REVENUE ADJUSTMENT MECHANISM  
(WRAM) ACCOUNT.**

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**SUMMARY**

This resolution approves eleven Advice Letters (AL) filed by California-American Water Company (Cal-Am). Ten were filed as required by Decision (D.) 03-06-072, June 19, 2003 in the Balancing Account OIR<sup>1</sup> (the Decision), subsequently modified by D.04-03-049, March 29, 2004. Additionally, for its Monterey Division, Cal-Am is seeking to refund net over-collections in the WRAM Balancing Account as of December 31, 2003. This resolution provides a status report on these filings and memorializes the resulting account balances as being within compliance with the implementing decisions.

**BACKGROUND**

As required by the Decision, each Class A water utility must file on or before March 31 of the following year, for balances accrued in its purchased water, purchased power and pump tax reserve accounts in the calendar year, as adjusted by an earnings test.

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<sup>1</sup> OIR 01-12-009 "Order Instituting Rulemaking on the Commission's Own Motion to Evaluate Existing Practices and Policies for Processing Offset Rate increases and Balancing accounts in the Water Industry to Decide Whether New Processes are Needed" requires ALs be filed by March 31 of the following year. Seven of these ALs were filed after that date. By letters dated March 29, 2004 and April 21, 2004, Cal-Am received permission to delay filing until April 28, 2004, making those letters timely filed.

Each balance must be adjusted by any over-earnings during the time period. Additionally any revenues already received due to Commission approved revenue offsets must be credited to determine the amount of recovery or refund. All calculations include interest at the 90-day commercial paper rate.

These ALs request the following<sup>2</sup>:

Coronado District

Cal-Am serves about 20,048-metered customers in its Coronado District. The present rates for the District became effective on October 29, 2003 by AL No. 586 that authorized addition of a quantity rate “per thousand gallons” to the existing rate “per 100 cubic feet” to expedite interagency transfers of water.

Advice Letter No. 591 filed October 10, 2003 requests to retain its purchased water reserve account balances accrued in December 2001 and calendar year 2002 for the Coronado District. The net over-collection for this time period was \$239,938 made up as follows: The under-collection for December 2001 was \$2,122 (\$2,125 with interest). Cal-Am did not over-earn in 2001. The over-collection for calendar year 2002 was \$102,551, but Cal-Am over-earned \$238,176 (\$239,938 with interest). Of the \$102,551, \$1,819,846 was expense and \$1,924,875 was revenue. Because the expense exceeds the over earnings, the \$1,819,846 must be adjusted downward by the \$238,176. When this is done, the net over-collection by Cal-Am is \$239,938. As this is only 1.87% of Coronado’s last authorized revenue requirement, Cal-Am is requesting to be allowed to retain the balance for later disposition.

Advice Letter No. 596 filed April 14, 2004 requests refund of purchased water reserve account balances accrued in calendar year 2003 for Cal-Am’s Coronado District. Coronado district customers provided \$1,792,071 in offset revenues to cover \$1,747,342 in expenses. The net over-collection for calendar year 2003 was \$44,566 (\$44,729 with interest). There were no over-earnings in 2003. The net requested refund is \$44,729.

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<sup>2</sup> Percentages are based on the last adopted revenue requirement for the district.

Felton District

Cal-Am serves about 1,316-metered customers in its Felton District, 3 miles north of Santa Rosa, in Sonoma County. The present rates for the District became effective on November 6, 2002 by Advice Letter No. 569, which incorporated Citizens tariff obligations as part of Cal-Am's.

Advice Letter No. 601 filed April 29, 2004, requests recovery of purchased power reserve account balance accrued in calendar year 2003 for the Felton District. The net under-collection for tax year 2003 was \$111. The net under collected balance represents 0.01% of the last authorized revenue requirement of the Felton District. Cal-Am is requesting to be allowed to retain \$111 for later recovery. There were no over-earnings in 2003.

Larkfield District

Cal-Am serves about 2,325-metered customers in its Larkfield District. The present rates for the District became effective on May 11, 2004 by D.04-05-023, which authorized a general rate increase.

Advice Letter No. 594 filed February 6, 2004, as supplemented by AL No. 594-A filed on October 14, 2004, requests recovery of purchased water and purchased power reserve account balances accrued in December 2001 and calendar year 2002 for the Larkfield District. The net under-collection for this time period was \$93,726 (\$94,394 with interest). The net under collected balance represents 6.28% of the last authorized revenue requirement of the Larkfield District. There were no over-earnings in 2001 or 2002.

Advice Letter No. 597 filed April 27, 2004, as supplemented by AL 597-A filed October 14, 2004 requests recovery of purchased power and purchased water reserve account balances accrued in calendar year 2003 for the Larkfield District. The net under-collection for this time period was \$99,795 (\$100,275 with interest). The net under collected balance represents 6.67% of the last authorized revenue requirement of the Larkfield District. There were no over-earnings in 2003.

Los Angeles District (San Marino, Baldwin Hills and Duarte)

Cal-Am serves about 24,000-metered customers in its Los Angeles District. The present rates for the District became effective on January 1, 2003 by Advice Letter No. 572, which implemented a step rate increase authorized by D.01-03-012.

Advice Letter No. 590 filed October 10, 2003, as supplemented by AL No. 590-A received August 6, 2004, requests recovery of purchased power and purchased reserve account balance accrued in December 2001 and calendar year 2002 for the Los Angeles District which includes the San Marino, Baldwin Hills and Duarte rate areas. The net under-collection for December 2001 and calendar year 2002 was \$1,092,802 (\$1,108,985 with interest), but Cal-Am over-earned by \$556,846 (\$561,045 with interest) in calendar year 2002 for a net under-collection of \$535,956 (\$551,794 with interest). Cal-Am also claimed an "Uncollectible Adjustment at 0.3475%" or \$3,854, but this adjustment was not authorized in the decision and is discussed below. The net under collected balance represents 3.15% of the last authorized revenue requirement of the Los Angeles District. Cal-Am is requesting to be allowed to recover \$449,701 for San Marino customers through a surcharge of \$0.0835 per 100 cubic feet of consumption, to recover \$83,949 from Duarte customers through a surcharge of \$0.0307 per 100 cubic feet of consumption and \$18,146 from Baldwin Hills customers a surcharge of \$0.0124 per 100 cubic feet of consumption.

Advice Letter No. 599 filed April 23, 2004, requests recovery of purchased power and purchased reserve account balance accrued in calendar year 2003 for the Los Angeles District which includes the San Marino, Baldwin Hills and Duarte rate areas. The net under-collection for calendar year 2003 was \$297,561 (\$300,514 with interest). Cal-Am also claimed an "Uncollectible Adjustment" at 0.3475%, or \$1,041, but this adjustment was not authorized in the decision and is discussed below. This \$300,514 figure is comprised of a \$91,027 over-collection in Baldwin Hills, a \$94,312 under-collection in Duarte and a \$297,419 under-collection in San Marino. Cal-Am did not over-earn in 2003 in the Los Angeles District. Cal-Am is asking to retain the \$300,514, or 1.71%, for later recovery.

Monterey District

Cal-Am serves about 36,540-metered customers in its Monterey District. The present rates for the District became effective on July 9, 2004 by Advice Letter No. 603 that was filed to implement rate changes authorized in D.04-07-035.

Advice Letter No. 598 filed April 28, 2004 requests recovery of WRAM reserve account balances for Cal-Am's Monterey District. The unrecovered WRAM balance from the previously authorized surcharge, and applicable to the WRAM account from 1997 through March 2000, including accumulated interest through December 2003 is \$107,165. The unrecovered WRAM balance from the previously authorized surcharge, and applicable to the WRAM account from April 2000 to December 2002, including accumulated interest through December 2003 is \$434,030. The over-collection of revenues for 2003 accumulated in the WRAM account is \$1,000,037 (\$999,578 with interest). The net over collected WRAM balance is \$458,383 as of December 31, 2003.

Sacramento District

Cal-Am serves 9,887 metered and 46,626 flat rate customers in its Sacramento District. The present rates for the District became effective on May 11, 2004 by Advice Letter No. 602 that implemented the changes authorized by the D.04-05-023.

Advice Letter No. 593 filed February 5, 2004, requests recovery of purchased power reserve account balances accrued in December of 2001 and in calendar year 2002 for Cal-Am's Sacramento District. The under-collection for December 2001 was \$32,047. The under-collection for calendar year 2002 was \$622,216 (\$623,326 with interest). The Sacramento district did not over-earn in this time period. The net requested recovery is \$658,908.

Advice Letter No. 595 filed April 15, 2004, requests recovery of purchased water and purchased power reserve account balances accrued in calendar year 2003 for Cal-Am's Sacramento District. The net under-collection for calendar year 2003 was \$620,096 (\$623,326 with interest). The Sacramento district did not over-earn in this time period. The net requested recovery is \$623,326.

Village District

Cal-Am serves about 18,844-metered customers in its Village District. The present rates for the District became effective on by Advice Letter No. 548 that requested a recovery of DHS regulatory expenses.

Advice Letter No. 600 filed April 28, 2004 requests recovery of purchased water and purchased power reserve account balances accrued in calendar year 2003 for Cal-Am's Village District. Cal-Am claims the net under-collection for calendar year 2003 was \$746,590 (\$750,737 with interest). The revenues collected due to an offset total \$219,378 (\$219,918 with interest). The expenses incurred total \$965,968 (\$970,655 with interest). During this period Cal-Am earned in excess of its authorized rate of return (12.59% realized as compared with 9.17% authorized) \$1,198,500 (\$1,271,919 with interest). Applying this amount to the under-collection of \$970,655 reduces the under-collection in the reserve account to zero. Cal-Am is requesting that the net \$219,918 over-collection in the account be applied to the \$355,238 under-collection retained in its pre-November 29, 2001 balancing account as filed by AL No. 579, March 14, 2003.

Ten of the above-mentioned Advice Letters were filed pursuant to Conclusion of Law 6, D.03-06-072, June 19, 2003. Compliance with this order is discussed in the Discussion section of this resolution. Advice Letter No. 598 was filed in accordance with D.03-02-030, Ordering Paragraph 4.

**DISCUSSION**

The reserve account Advice Letters were filed in compliance with D.03-06-072 (the Decision), which was subsequently modified by D.04-03-049, March 29, 2004. D.03-06-072 Conclusion of Law 6 states:

"Consistent with the procedures designated in Appendix A, a utility shall seek review of under and over collections in accounts by filing an annual Advice Letter with the Commission's Water Division. Except as designated in Appendix A, account recovery or refund will be implemented in the utility's next general rate case decision. Upon authorization of the new general rate case rates, the previous account will be closed. Each utility's annual Advice Letter seeking account review shall be filed by March 31 of the year following the year, which is the subject of the request. A utility's Advice Letter seeking account review for November 29, 2001 through December 31, 2002 shall be filed no later than 90 days from the mailing date of this decision. "

The existing procedure for recovery of reserve accounts is as follows:

- (1) Class A water utilities must file on or before March 31 of the following calendar year to recover purchased power, purchased water and pump tax (groundwater extraction charge) reserve account balances through December 31 of the prior calendar year.
- (2) The total of the reserve account balances in each district must undergo a recorded earnings test.
- (3) Based upon the results of the earnings test, reserve account balances must be adjusted to account for revenues in excess of the utility's last authorized rate of return.
- (4) Utilities, at their option, may request a surcharge once under-collections reach 2% of their last authorized revenue requirement.
- (5) Otherwise, balancing account review and recovery of remaining balances are processed at the time of the utility's next General Rate Case.

One Advice Letter (No. 598) was filed in accordance with D.03-02-030, Ordering Paragraph 4. That order provides that Cal-Am can maintain its WRAM balancing account through this rate case cycle.

The Advice Letters in this resolution have been determined to be eligible for disposition. Water Division's (WD) analysis is as follows:

**Advice Letter No. 590-A** requests recovery of \$547,940 from its Los Angeles District customers. In calculating this value Cal-Am claimed additional amounts to cover "uncollectibles." Uncollectibles is an approved expense in the Commission's Uniform System of Accounts for Water Utilities. The utilities are allowed to establish a reserve account (No. 254) and include a certain amount in their revenue requirement at the time of their GRC to fund lost sales due to: non payment for Utility Service (254.1), Merchandising (254.2), Associated Companies (254-3), Officers and Employees (254-4) and Other (254.5). As bills are not paid and are deemed uncollectible, those amounts are booked to Account 775, "Uncollectible Accounts" and these losses are made up from made up from Account 254. Uncollectibles included in rates are normally calculated as a percentage of authorized revenue. Once these funds are authorized in Account 254, the money cannot be used for any other purpose then processing or covering uncollected bills.

However in this case we are authorizing the recovery of an under-collected account, not calculating a revenue requirement. We do this by allowing the imposition of a

surcharge. Money collected in the surcharge is booked to the account. This occurs until the account balance reaches zero or the surcharge is terminated. It is not necessary to adjust for uncollectibles, as the surcharge revenues, not surcharges billed, are what are booked to the account. Consequently Cal-Am's request of an additional \$3,854 is not necessary and not justified. Cal-Am should be allowed to book only \$547,940 for recovery by the surcharge.

This net under collected balance represents about 3.15% of the last authorized revenue requirement of the Los Angeles District. Cal-Am is requesting to be allowed to recover this amount through a surcharge of \$0.0835 per 100 cubic feet of consumption. Cal-Am should be authorized to impose the surcharge, but collect only \$547,940.

**Advice Letter No. 591** requests to retain its purchased water reserve account balances accrued in December 2001 and calendar year 2002 for the Coronado District. WD has reviewed the filing and confirmed that the correct amount to retain for later refund by Cal-Am is \$239,938. As this is only 1.87% of Coronado's last authorized revenue requirement, Cal-Am is requesting to be allowed to retain the balance for later disposition. That request conforms to the guidelines.

**Advice Letter No. 593** requests recovery of purchased power reserve account balances accrued in December of 2001 and in calendar year 2002 for Cal-Am's Sacramento District. The net under-collection for December 2001 was \$32,047 and for calendar year 2002 was \$622,216 (a total of \$658,908 with interest). The Sacramento district did not over-earn in this time period. WD has reviewed the filing and confirmed that the correct amount to recover by Cal-Am is \$658,908. Cal-Am is requesting a surcharge of \$0.029 per Ccf on its metered customers and \$0.81 per month on its flat rate customers for a period of 12 months. This is within the guidelines.

**Advice Letter No. 594** requests recovery of purchased water and purchased power reserve account balance accrued in December 2001 and calendar year 2002 for the Larkfield District. The net under-collection for this time period was \$93,726 (\$94,394 with interest). There were no over-earnings in 2001 or 2002. WD has reviewed the calculations and found them to be in conformance with the decision. The net under-collected balance represents 6.28% of the last authorized revenue requirement of the Larkfield District. In accordance with the guidelines, recoveries of between 5% and 10% should be spread over two years. Cal-Am originally requested to be allowed to implement a surcharge of \$0.093 per Ccf for 24 months, but, by supplemental Advice Letter 594-A, October 14, 2004, Cal Am request to amortize the under-collection of this advice letter and Advice Letter 597 (see below) over three years, since the combined recovery will exceed 10%. The surcharge over three years will be \$0.062 per Ccf. This is in conformance with the guidelines.



**Advice Letter No. 595** requests recovery of purchased water and purchased power reserve account balances accrued in calendar year 2003 for Cal-Am's Sacramento District. The net under-collection for calendar year 2003 was \$623,326. The Sacramento district did not over-earn in this time period. The net requested recovery is \$620,096 (\$623,326 with interest). WD has reviewed the calculations and found them to be in conformance with the decision. Cal-Am should be allowed to impose a surcharge of \$0.028 per Ccf for metered customers and \$0.77 per month for flat rate customers for a 12-month period or until the \$623,326 has been recovered, whichever occurs first. The net under-collected balance represents 3.83% of the last authorized revenue requirement for the Sacramento District.

**Advice Letter No. 596** requests to refund purchased water reserve account balances accrued in calendar year 2003 for Cal-Am's Coronado District. The net over-collection for calendar year 2003 was \$44,729. There were no over-earnings in 2003. The net requested refund is \$44,729. WD has reviewed the calculations and found them to be in conformance with the decision. Cal-Am requests to enact a surcredit applied to all meter sizes for a 4 month period or until the \$44,729 has been refunded, whichever occurs first. This request is in accordance with Commission guidelines for refunds, which should be applied to the service charge and refunded as soon as reasonable.

**Advice Letter No. 597** requests recovery of the purchased water and purchased power reserve account balance accrued in calendar year 2003 for the Larkfield District. The net under-collection for this time period was \$99,795 (\$100,275 with interest). There were no over-earnings in 2003. WD has reviewed the calculations and found them to be in conformance with the decision. The net under-collected balance represents 6.67% of the last authorized revenue requirement of the Larkfield District. In accordance with the guidelines, recoveries of between 5% and 10% should be spread over two years. However, Cal-Am has requested to spread the increase in this advice letter and in Advice Letter No. 594 over three years since they will be effective simultaneously and the total of the requests in both Advice Letters is greater than 10%. Cal-Am filed supplemental Advice Letter No. 597-A on October 14, 2004 requesting that it be allowed a surcharge of \$0.071 per Ccf for 36 months. This is within the guidelines..

**Advice Letter No. 598** requests to refund WRAM reserve account balances for Cal-Am's Monterey District. The net over-collected WRAM balance is \$458,383 as of December 31, 2003. WD has reviewed the calculations and found them to be in conformance with the decision. Based on Commission standard practice for amortizing balancing accounts, over-collections are to be refunded by a surcredit to the service charge as soon as reasonable. The company is requesting the over collected amount to be amortized over a period of 8 months. The meter surcredit is to be applied to all customers with exception of PAR per D.03-02-030 Findings of Fact 13.

**Advice Letter No. 599** requests to retain \$297,561 (\$300,514 with interest) of purchased water and purchased power reserve account balances accrued in calendar year 2003 for Cal-Am's Los Angeles District. In calculating this value, Cal-Am claimed additional amounts to cover "uncollectibles." The same arguments against grossing the recovery up for uncollectibles applies to this advice letter as it does for Advice Letter No. 590-A. Cal-Am should be allowed to book to the balancing account only \$299,473 for later recovery. With this modification, WD finds the filing correct and recommends acceptance. This request conforms to the guidelines in the decision.

**Advice Letter No. 600** requests recovery of purchased water and purchased power reserve account balances accrued in calendar year 2003 for Cal-Am's Village District. The expenses tracked in 2003 total \$970,655 but Cal-Am over-earned \$1,271,919 in this district in 2003, so the adjusted booked expenses is zero. Booked revenues were \$219,918. If filed properly this Advice Letter would have requested to refund \$219,918 of over-collected revenues in the account. Cal-Am should be allowed to apply this over-collection to the \$355,238 under-collection approved by AL 579, March 14, 2003.

**Advice Letter No. 601** requests recovery of the purchased power reserve account balance accrued in calendar year 2003 for the Felton District. The net under-collection for tax year 2003 was \$111. The net under-collected balance represents 0.01% of the last authorized revenue requirement of the Felton District. Cal-Am is requesting to be allowed to retain \$111 for later recovery. There were no over-earnings in 2003. WD has reviewed the calculations and found them to be in conformance with the decision. Cal-Am should be allowed to retain \$111 in its district balancing account for later recovery.

### **OVER-EARNINGS ADJUSTMENTS**

The following adjustments have been made to the account balances:

District	2001-2002	2003	Total
Coronado	\$239,938		\$239,938
Los Angeles	\$561,045		\$561,045
Village		\$970,655	\$970,655
<b>Total</b>	<b>\$800,983</b>	<b>\$970,655</b>	<b>\$1,771,638</b>

### **NOTICE AND PROTESTS**

Cal-Am has given public notice of the request for an increase by publishing in a local newspaper:

In its Larkfield District

on February 11, 2004 (AL 594)  
and May 1, 2004

In its Sacramento District

on February 10, 2004 (AL 593)  
and April 28, 2004 (AL 595).

In its Los Angeles District

on October 23, 2003 (AL 590)

Proof of Publication has been provided to staff and no protest letters were received.

The draft resolution of the Water Division was mailed to the parties in accordance with PU Code Section 311(g). Cal-Am filed Comments on October 20, 2004 that corrected and expanded upon the discussion of various advice letters. The Monterey Peninsula Water Management District filed comments on October 20, 2004. It noted a potential discrepancy between language in D.03-02-030, Ordering Paragraph 4 and the recovery authorized in this decision. We have added explanatory language and added Advice Letter No. 598 to the ordering paragraphs.

## **FINDINGS**

1. Cal-Am filed Advice Letter Nos. 590-A, 591, 593, 594-A, 595, 596, 597-A, 599, 600, and 601 in compliance with Ordering Paragraph No. 1 of D.03-06-072, June 19, 2003. It filed Advice Letter No. 598 for recovery of its Water Revenue Adjustment Mechanism in accordance with Ordering Paragraph 4 of D.03-02-030, February 13, 2003.
2. The existing procedure for recovery of balancing accounts is as follows:  
(1) Utilities, at their option, may request a surcharge once under-collections reach 2%; (2) Otherwise, balancing account review and recovery of remaining balances are processed at the time of the utilities next general rate case.
3. The recovery requested in Advice Letter Nos. 591 (Coronado), 599 (Los Angeles), and 601 (Felton) are less than 2% of the last authorized revenue requirement. Recovery should be incorporated in the next General Rate Case for these Districts.
4. Advice Letter Nos. 596 (Coronado) and 598 (Monterey) request refund. These advice letters should be approved.
5. Advice Letter No. 600 (Village) requests a transfer of the over-collection to the existing balancing account to offset the undercollected balance therein.
6. The Commission finds, after investigation by the Water Division, that the changes requested by Cal-Am in Advice Letter Nos. 590-A, 593, 594-A, 595, 596, 597-A, and 598 are justified and the resulting rates are just and reasonable.
7. This resolution was sent out for comment in accordance with Public Utilities Code Section 311(g).

## **THEREFORE IT IS ORDERED THAT:**

1. California-American Water Company is authorized five days after the effective date herein to make effective revised rates as attached to Advice Letter Nos. 590-A, 593, 594-A, 595, 596, 597-A, and 598 and to concurrently cancel the presently effective rate schedules.

2. California-American Water Company's requests for future recovery because the balances are under 2% of \$239,938 in Advice Letter No. 591 (Coronado), \$299,473 in Advice Letter No. 599, as supplemented (Los Angeles), and \$111 in Advice Letter No. 601 (Felton), should be approved.
3. California-American Water Company's request to apply the \$219,918 balance in Advice Letter No. 600 (Village) to offset the \$355,238 under-collection in Advice Letter No. 579 is approved.
4. California-American Water Company is directed to keep maintaining its reserve and balancing accounts as required by Public Utilities Code Section 792.5 and Resolution No. W-4467.
5. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 19, 2004; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

MICHAEL R. PEEVEY  
President

CARL W. WOOD  
LORETTA M. LYNCH  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
Commissioners